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COMMISSION'S ACTIVITIES DESIGNED TO ASSIST COUNTRIES OF THE REGION IN TRANSITION TO A MARKET ECONOMY AND THEIR INTEGRATION WITH THE EUROPEAN AND GLOBAL ECONOMY, INCLUDING FACILITATING ACCESS TO MARKETS FOR COUNTRIES IN TRANSITION

Note by the Executive Secretary

1. This note has been prepared pursuant to paragraphs 7 and 8 of Commission decision B (48). It deals with ECE activities designed to assist the countries in transition in selected areas. It provides an overview of the programme of workshops, ongoing activities in a number of sectors of the ECE programme of work, the introduction of the programme of regional advisory services, and proposals for diversifying ECE assistance to economies in transition, including facilitating access to market for countries in transition.

REGULAR PROGRAMME ACTIVITIES

2. The main emphasis of the ECE activities within its regular programme of work has continued to be placed on the analysis of the nature and difficulties of the transition process and on policy questions, reform reviews and assistance needs for their integration in the European and global economy.

3. These activities provide analytical, statistical, normative and other support for the transition processes, including the development of infrastructure and the provision of guidance on important aspects of the reform process, such as privatization, property rights, standardization and legal instruments in addition to the provision of special technical assistance programmes. The ECE has been active in providing governments, the business community and private entrepreneurs with practical materials for their operations.

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4. The ECE also has an impressive record of conventions and agreements concluded among its members in the fields of transport and environment, including agreements on transport infrastructure networks: roads, railways and combined transport lines, the TEM and TER Conventions, the Convention on Long-range Transboundary Air Pollution with its protocols, and the Conventions on Environmental Impact Assessment, on the Transboundary Effects of Industrial Accidents and on Transboundary Waters. By adhering to these conventions and agreements, the economies in transition would be moving forward towards normalization with other countries in the region.

5. The ECE has also made important progress in its work in the area of standardization and harmonization of norms, rules and regulations at the regional level. These achievements are particularly beneficial to the economies in transition and to fostering their integration with the European economy by the development of standards which are compatible throughout the region. Special reference is made to work on trade facilitation (EDIFACT), construction of vehicles, transport of dangerous goods, harmonization and simplification of frontier and customs formalities, standardization of agricultural products and building materials.

PROGRAMME OF WORKSHOPS

6. The programme of workshops continues to serve as the major form of ECE assistance to economies in transition. The workshops and other similar informal fora complement the Commission's regular programme of activities in promoting the process of economic reform in all sectors to which the countries in transition attach great importance. The workshops respond not only to the needs of Governments but also facilitate contacts among the business communities of the region and generate an exchange of technical know-how and expert advice.

7. Since the forty-eighth session of the Commission 30 workshops have been held, of which 12 related to energy and 10 to human settlements. Since the inception of the programme in 1990 a total of 113 workshops have been organized, 26 on energy, 20 on human settlements, 15 on industrial development, 11 on statistics, 10 on environment, 10 on transport, 7 on trade, 7 on timber, 5 on agriculture and 2 on development issues and policies. The demand for workshops continues to grow. It is envisaged that as many as 46 workshops might be held in 1994 and 6 are already scheduled for 1995.

8. To the extent possible, workshops are held in countries in transition, which enables a wide audience in these countries to benefit from the meetings. Among the problems and issues addressed at the workshops are privatization, restructuring of state enterprises, industrial policy, trade and investment, promotion of direct foreign investment, the development of small and medium-size enterprises, pricing policies, quality control, statistical and accounting practices, environmental management and new technologies, sustainable industrial management, efficient use of energy, adaptation of transport enterprises, development of housing markets, forest legislation and others.

9. With the aim of avoiding duplication and to use resources available to the United Nations system as efficiently as possible, ECE efforts have been made to ensure close cooperation and coordination whenever possible with other international organizations and institutions in the region. Institutions such

as the European Union, OECD, World Bank, EUROSTAT, UNDP, WHO, IMF, GATT, ITC, UNIDO and UNCHS have been participating in the ECE workshops programme.

10. The ECE workshops are financed from extra-budgetary resources, mainly by the countries in transition themselves. They are sometimes supported by grants from local authorities and/or business communities and from bilateral contributions in cash or kind from government and private sponsors in market-economy countries. The ECE secretariat has actively supported the workshops and has used its past experience in advising and assisting the countries interested in hosting future workshops on all organizational, administrative, financial and follow-up matters.

11. The success of the workshops programme has led to the growing demand addressed to the secretariat for assistance in organizing them. However, systematic planning of workshops has been hampered by the lack of regular funding sources. The countries in transition, particularly the newly independent States, encounter difficulties in hosting workshops and even in financing the participation of their representatives in meetings of international organizations of direct relevance to their integration issues and policies.

12. To overcome this problem and to ensure reliable funding resources for the workshops programme, the secretariat has continued to seek contributions to the Trust Fund for Assistance to Countries in Transition (TFACT) which it established in 1993 and which serves as a channel through which Governments, international organizations, institutions and other donors may support the ECE programme to assist economies in transition.

13. To date the total contributions to TFACT have been at a level of $230,000 and amounted to $130,657.09 in 1993 with a year-end balance of $70,000. Most contributions were earmarked for programmes related to the environment, while others supported workshops related to the ECE priorities. In many cases countries in transition have identified topics for workshops for which no support funding is available.

14. The Trust Fund is administered and audited in accordance with United Nations financial regulations and rules. The ECE secretariat provides quarterly statements of accounts. The opening of this fund has responded to a clearly identified need of ECE member States and has relieved donors of the considerable work involved in handling requests for attending meetings and holding workshops, administering travel and payments and maintaining accounts. The programme support costs deducted from contributions are used to finance secretariat backstopping activities related to the workshops programme.

15. It is worth noting that the ECE has a number of other trust funds which are used to support various extra-budgetary activities in transition. They include mainly trust funds on Human Settlements, UN/EDIFACT, Energy Efficiency 2000 Project, Global Energy Efficiency 21, The Steel Industry: Structural Change and Development, Environmental Performance Reviews and the Environment for Europe process, and the TER and TEM transport projects.

16. ECE activities organized to respond to the demands of the countries in transition, with support from extra-budgetary resources, correspond with United Nations operational activities reviewed on a regular basis by the legislative bodies of the Organization and which are designed to assist Member

States to improve their development capacity, to foster institution building and human resource development.

17. Two major types of evaluation are carried out within the United Nations system. In-depth evaluation is carried out by Member Governments and reported to the CPC. Self-evaluation is carried out by programme managers periodically and its results are reported to the intergovernmental bodies governing the respective programmes.

18. Monitoring and evaluation questions cannot be meaningfully addressed in isolation from the programme formulation and design questions. That is why the evaluation process is usually divided into preparation, conduct and reporting phases. Since the beginning of the workshops programme in 1991 the secretariat working group on workshops concluded that the host government should evaluate the utility and value of the event for itself, while the secretariat should be able to judge the same qualities from a more detached point of view, primarily to improve the quality of future workshops rather than as a critical assessment of the past ones.

19. There is an on-going effort by the secretariat to provide a summary evaluation of workshops held to the relevant ECE subsidiary bodies, including remarks on organization, participation, financing, substantive and technical issues and proposals for follow-up activities. The current evaluation practices also include submitting evaluation questionnaires to be completed by the participants during the workshop. The evaluation by the ECE subsidiary bodies has been generally positive. For example, the Inland Transport Committee at its fifty-fifth session found that the programme of workshops carried out since 1991 contributed significantly to promoting the reform and integration of economies in transition with the rest of the ECE region.

20. The secretariat has also initiated an internal evaluation effort by raising issues such as workshop concept and design, workshop implementation, including major outputs, i.e. policy recommendations, reports, proceedings, etc., follow-up activities and recommendations for future work.

21. Experience has shown that workshops are a flexible tool to provide a rapid and cost-effective response to the needs of countries in transition, by using informal methods which can avoid the time-frame and structural problems associated with the established ECE programme of meetings. They also allow for the participation of a wider circle of end-users and facilitate the flow of information and know-how at little cost.

22. It has been found that interest in issues related to reform and integration in the countries in transition has been stimulated through on-site visits, which provide an opportunity for the workshop participants to gain pragmatic insight into the real-life situations in the respective areas of interest, and to promote direct contacts with local authorities in the sector concerned.

23. It is the opinion of many who have dealt with the workshops programme that the host countries often face difficulties in finding financial support for the organizational aspects of the workshops and that more financial support for the workshops series should be sought through increased contributions to TFACT.

24. The cooperation with other international organizations was found to be an excellent way to ease the financial burden of organizing workshops. The cooperation with UNEP and the European Union are cases in point.

25. Although ECE has been successful in finding key resource persons or lecturers for the workshops free of charge, some additional resources for consultants' services would ensure a more focused approach during programming stages of workshop preparations.

26. The workshops have a rather diverse form in terms of their objectives. The secretariat has identified three major types of workshop, namely

(i) workshops to provide and share general information relevant for transition processes, which include a strong training component targeted at senior officials and/or policy makers;

(ii) workshops which are oriented to provide advice to national authorities frequently from different line ministries on how to approach a certain policy issue;

(iii) workshops to tackle some new problems relevant for the region or to prepare regional programmes to be submitted to outside donors for financial and technical assistance.

Workshops falling within category (i) were the most frequently requested, and judged from the number of participants they fulfilled the set objective of learning through sharing of experiences.

27. Due to the lack of financial resources many follow-up activities emanating from the workshops could not be pursued and it has been left to participating countries to build up on the information provided and/or additional expertise acquired. The secretariat intends to continue evaluation of the workshop results in using regional advisory services so as to secure some follow-up activities, including different forms of technical assistance.

28. The on-going evaluation by ECE Principal Subsidiary Bodies will continue and could be considerably strengthened to go beyond the purely technical aspects by pointing to some findings of the self-evaluation process.

29. In addition to its on-going efforts to evaluate the workshops programme the secretariat plans to consult the Commission of the European Community, OECD and EBRD to ascertain their methods of evaluating similar technical cooperation activities. The secretariat will report to the Commission at its fiftieth session on these consultations.

REGIONAL ADVISORY SERVICES

30. In the context of the restructuring of the secretariat in the economic and social sectors, the overall distribution of resources assigned by the General Assembly for advisory services has been modified in the biennium 1994/1995 to make the regional commissions the main providers of advisory services funded from Section 20 of the Programme Budget. Resources under this programme are intended to foster the economic development of the less industrially developed countries of the region in areas which they themselves identify as of the greatest need.

31. As a result of this new allocation of resources, which is in addition to resources allocated for the ECE programme of work under Section 17 of the Programme Budget, the ECE will be in a position to provide regional advisory services in most of its sectors of work. The principal function of the advisory services is to provide member Governments with advice of a broad nature in order to promote their capacity and institution building to facilitate their transition to a market economy and their integration with the European and global economy. This will be achieved at the regional level by identifying specific programme and project needs and by establishing a network of linkages both with the ECE regular programme of work and with the activities carried out by other international organizations and institutions active in the region, including donor organizations. The programme will make full use of the UN-integrated offices established in a number of countries in transition under the direction of Resident Coordinators.

32. In the past ECE has benefited from the services of one regional adviser in the transport sector who responded to requests from a number of countries in transition by providing services in the field on a range of issues concerning transport policy and technology. The expanded programme will be launched in 1994 and is expected to cover the fields of environment, transport, statistics, trade facilitation, energy, development of international trade, industry and technology, and agriculture and timber.

33. The administration of this programme and the setting of priorities in providing advisory services and identifying basic needs will be demand-driven and will take into account data available to ECE. Additionally, coordination with ESCAP will be maintained to avoid duplication of assistance in the case of countries in transition which enjoy dual membership. Simultaneously, cooperation with other UN institutions and organizations will be strengthened and will cover data collection, sharing of common services and facilities offered by UNDP in the countries in transition.

ECE ASSISTANCE TO ECONOMIES IN TRANSITION IN SPECIFIC FIELDS

Environment

34. In view of the current environmental situation in countries in transition and their wish to increase international cooperation, technical and financial assistance is of prime importance to them. So far, most assistance has centred on workshops, which offer a number of advantages: flexibility, tailor-made technical assistance and finance. Experience shows that workshops are effective tools not just for solving particular problems in a particular country or group of countries, but are also useful and practical tools for implementation of the ECE conventions.

35. For example, within the activities under the Convention on the Transboundary Effects of Industrial Accidents, a workshop on strengthening the ability of countries in transition to prevent, prepare for and respond to industrial accidents was organized in Warsaw, Poland (May 1993). The workshop identified priority needs of countries in transition and its conclusions and recommendations provided the basis for the development of an action-oriented programme which is complementary to and compatible with the Environmental Action Programme for Central and Eastern Europe, as approved by the Ministerial Conference in Lucerne (April 1993).

36. The programme focuses on three main objectives: institutional development (legislative and administrative); safety management and technology; and training and exercises. For each of them, several specific projects have been formulated, including the work which needs to be undertaken, their duration and expected output, and the resources required. The programme is designed to lead to practical improvements with high impact and visibility. Although all countries in transition need some form of assistance, the programme can cover only part of the region at this stage. It accommodates and promotes mutual assistance and cooperation among countries in transition; takes into account and integrates existing assistance activities; and makes existing training and guidance materials available in a usable form to the countries in transition.

37. It is proposed that regional mechanisms be established to serve a network of national centres (one regional mechanism in Poland for training and exercises, the other in Hungary for industrial safety management). The host countries have offered to take the lead in their establishment. A project is proposed to produce guidance materials and carry out screening and rapid risk assessment of hazardous activities. Another project would aim at assisting countries to develop legislation and coordination mechanisms at the national level.

38. The implementation of the programme is funded by the Signatories. Financial contributions for 1993 were offered by the Governments of Germany, Netherlands, Poland and Switzerland, as well as by the European Union. The Netherlands designated a project officer for the development of the programme. Financial contributions for 1994 have been offered by Germany, Netherlands and Norway, but more contributions will be necessary for the whole 1994-1996 period. When the project proposals are ready, they will be submitted for funding by international institutions, including the regional funds of the European Union.

39. The environmental conventions and protocols on air pollution, water management, environmental impact assessment and industrial accidents, serviced by the ECE secretariat, are important elements of a common regional legal framework operating at a time when a growing number of countries are developing or adapting policies, instruments and mechanisms to cope with both nationwide and transboundary environmental problems. The conventions will halt the growing potential for transboundary problems due to the creation of new national frontiers, eliminate the former dividing line between east and west and integrate countries with economies in transition into a pan-European legal and economic space.

Transport

40. Transport issues in the countries in transition have been dealt with by the Inland Transport Committee and major activities have been implemented. In addition to 12 workshops organized so far, the Trans-European Motorway Project (TEM) is an ECE sponsored regional project in which eleven central and south-east European countries participate. It aims to construct and manage a modern network of high-capacity motorways connecting the Baltic, Adriatic, Aegean and Black Seas. It will also facilitate communications with other parts of Europe and provide direct links with western Asia and North Africa.

41. The Trans-European Railway Project (TER) is also an ECE sponsored project of cooperation among countries in central and eastern Europe with a view to

upgrading and developing a selected network of rail and combined transport infrastructure in those countries. It will also develop a coherent and efficient transport system between them and the countries of western Europe as well as the Middle East.

42. From the beginning in 1977, UNDP was a crucial financial supporter of the TEM Project. It has also financed activities connected with the TER Project since 1990. The ECE was and continues to be the executing agency responsible for technical backstopping and administrative aspects of the coordination activities of the two projects. The Steering Committee, comprising the participating Governments represented at high level, has overall responsibility for decision-making concerning common action taken under the two projects. In order to provide a sound financial basis for the continuation of project activities, the participating countries have established within the United Nations system two Trust Funds for the TEM and TER projects respectively.

43. There is a new initiative for ECE participation in the programme related to integrated transport systems to be launched by UNDP, which will centre on policy issues, regulatory framework and information system. This UNDP programme will be coordinated with the European Union PHARE programme, World Bank and others.

Statistics

44. The Conference on European Statisticians has continued to incorporate in its work programme specific activities responding to the needs for assistance to countries in transition. Aware of the assistance being provided by other international organizations, and in particular OECD and the Statistical Office of the European Communities (Eurostat), the Conference took a realistic approach trying to set in motion a series of activities particularly directed at assistance to countries in transition and, at the same time, to incorporate these countries in the ongoing activities as fast as possible.

45. In pursuing the five elements of its "transition policy" adopted in 1992, the Conference provided the framework for concentrated efforts to assist the newly independent and other countries in their transition to a statistical system that is adapted to the needs of a market economy.

46. The results of technical assistance programmes in statistics for countries in transition were evaluated in an ECE workshop held in Romania in 1993. Discussions during the workshop showed that the national and international efforts had contributed substantially to a greater relevance and prioritization of statistical fields in which technical assistance is required and the formulation and implementation of technical assistance programmes. However, a number of specific proposals were agreed upon to make the current assistance programmes more effective.

47. The Conference of European Statisticians has scheduled a workshop particularly related to its transitional member countries for 1994. The topic of this workshop is "Introduction of new agricultural statistics in newly independent States". It is scheduled to take place in Belarus (25-29 April 1994) and will be jointly organized by ECE, OECD, FAO and Eurostat. The objective is to discuss the organization and implementation of cooperative projects for the introduction of new food and agricultural statistics in

countries in transition. The regular consultations on the European Comparison Programme (ECP) within Group II, jointly organized by ECE, OECD, Eurostat and Austrian CSO, will take place in Vienna (18-20 April 1994). It is expected that this round of consultations will more actively involve countries in transition included in the Group II.

48. Concrete forms of assistance to economies in transition centred mainly on workshops and seminars. Since 1990, 11 workshops and seminars particularly concerned with specific transitional problems were organized covering a wide range of statistical fields. While at the beginning most of these workshops were organized in cooperation with a single national statistical office of the hosting country or with the group of national statistical offices of the donor countries, later on cooperation with the OECD and Eurostat has proved to be more effective in responding to the needs of a growing number of countries needing assistance. The integrated presentation of the work programmes of the Conference, OECD and Eurostat was welcomed by member countries of the three organizations, and it contributed significantly to a more cost-effective and less resource-consuming assistance which precluded the overlapping and repetition of activities.

Trade Facilitation

49. The secretariat has introduced a proposal to initiate a project for the dissemination and use of EDIFACT in the countries in transition. The proposal was endorsed by the Committee on the Development of Trade and awaits funding.

50. Other activities in the field of trade are referred to in the section below dealing with access to markets (paras. 80-88).

Economic Analysis: Population Activities

51. Activities of the ECE in the area of economic analysis are described in the section below dealing with access to markets (paras. 76-79).

52. The major mandate of the programme is to assist countries in transition with their population data collection, research and, increasingly, policy making. In order to fulfil this mandate, ECE collaborates with organizations from these countries as well as with population research organizations from western countries. Technical and scientific know-how, indispensable to countries in transition, comes in part from western countries and is transmitted to countries in transition in the course of the implementation of the ECE population projects. Transmission mechanisms include informal working group meetings and workshops of project participants, and training seminars on topics relevant to the implementation of the projects. Apart from project coordination and training, a major activity of each project is technical assistance to national institutions in countries in transition participating in the projects.

53. The ECE population programme consists of four major region-wide collaborative policy relevant research projects, and a few other smaller projects. The four projects are in the following fields: (i) east-west international migration, (ii) population ageing and the status of elderly populations, (iii) fertility and family change and behaviour, and (iv) population policies related to international migration, population ageing, and the family. Participating in these projects, which are managed by the

Population Activities Unit (PAU) of the ECE secretariat, are representatives of national population institutes, National Statistical offices (NSOs) and independent scholars. Close to three-quarters of the population programme resources come from extrabudgetary sources, mainly from the United Nations Population Fund (UNFPA). Major additional resources are spent by national organizations participating in the projects.

54. In the majority of these new States the level of expertise in population data collection, research and policy making need strengthening. These new countries collaborating with the ECE on the various research projects need assistance in raising the requisite funds for their population projects, which has greatly increased the need of countries in transition for technical training and fund-raising assistance. The need for technical assistance for countries in transition has been identified by the ministerial-level European Population Conference (Geneva, March 1993). The recommendations adopted by the conference specifically call on international and regional intergovernmental organizations to assist these countries with institution building, data collection, policy-relevant research and population policy formulation. Moreover, written communications, often from the highest government levels, from some ten countries in transition to the ECE secretariat have identified specific areas of technical assistance in population expected from the ECE.

Energy

55. ECE has developed a range of operational activities to assist the countries in transition which include a programme of workshops in the field of energy, "Energy Efficiency 2000" Project, and various forms of east-west industrial cooperation such as the planned Centre for the promotion and development of a market-based gas industry in economies in transition. The main responsibilities are vested in the Committee on Energy and its three Working Parties on Coal, Gas and Electric Power.

56. The Energy Efficiency 2000 project, which was mandated by the Bergen Ministerial Declaration on Sustainable Development in the ECE Region in May 1990, started in June 1991. It is managed by a Steering Committee and has provided a neutral international forum in which all member States work on economic reforms in central and eastern Europe as equal partners. The main aim of the project is to enhance trade and cooperation in energy efficient technology. By improving energy efficiency in central and eastern Europe, the project will lead to environmental benefits, improvements in living conditions and increasing industry productivity. The innovative feature of the project is that it promotes investment and through it a new concept of self-financing technical assistance. In a broader sense, the ECE is helping through the Energy Efficiency 2000 project to develop a work method in which technical and economic assistance provide support for policy reforms which, in turn, create new markets and financing mechanisms in central and eastern Europe. Energy Efficiency Demonstration Zones produce energy savings and a convertible currency cash flow to eastern partners to repay western investments and leave convertible currency revenues to the economies in transition.

57. During the first 28 months of the three year Project, increased contacts between businessmen, trade officials, bankers, engineers and energy managers have been the most important activity. Some 38 meetings and events have been held including sixteen trade fair events with 3,400 participants, one third of

whom were from central, eastern and southern Europe, 550 of whom were supported by Project Trust Fund resources, with participants from 40 ECE member States taking part in 25 east and west European locations with 68,500 m^2 of exhibition space devoted to energy-efficient technology. In addition, Ad Hoc meetings were held on Energy Efficiency Standards (in Geneva) and on Energy Efficiency Demonstration Zones (in Moscow, Rome and Newcastle-upon-Tyne) and symposia in Paris and Moscow.

58. During its first phase, the Energy Efficiency 2000 project has proved to be an effective instrument for technical assistance to economies in transition and for reducing the energy efficiency gap with the western economies. The original three-year mandate of this Project will expire on 31 May 1994. A plan for its continuation has been approved by the Steering Committee. The donor parties were invited to announce their new contributions for the continuation of the Project in 1994. In addition, an elaborate project proposal has been submitted to the Global Environmental Facility (GEF).

59. Among the initiatives launched by the ECE in 1993 to strengthen assistance to economies in transition and to be implemented in 1994 is the programme on Promotion and Development of Market-based Gas Industry in Economies in Transition adopted by the Working Party on Gas (January 1994). This programme will be financed by a special Trust Fund. Several companies have already expressed their willingness to contribute in-cash and in-kind and contributions are expected to amount to US$ 350,000. The Centre will be managed as a technical assistance programme.

60. Demand for workshops in the field of energy has been steadily increasing during 1993 and the beginning of 1994, which is further proof of the crucial importance of technical assistance in this field to support transition processes and sustainable development in central and eastern Europe.

Industry and Technology

61. The demand for advice and assistance, on both industry-related policy and techno-economic matters, from the countries in transition remains high. Since 1991, the ECE has assisted host governments in preparing and servicing 18 workshops in 11 different countries in transition and no less than 9 workshops are planned to be held in 1994. Additional workshops on industry and technology issues have also been held in market economy countries with the participation of countries in transition.

62. Some recent studies undertaken by the ECE, in cooperation with other international and regional organizations, have focused on issues of special relevance to the countries in transition. Thus, "the Global Review of Iron and Steel Industry", undertaken in cooperation with the World Bank, EBRD, EU and IISI, concentrates on the analysis of the industry at the European level with a view to integrating the east European sector into the regional market. The comparative study of chemical legislation in the countries of the ECE region, undertaken with the cooperation and support of the European Union as project leader, also aims to assist the economies in transition in upgrading their legislation and harmonizing it at the regional level.

63. A number of international organizations expressed interest in developing new projects in countries in transition, such as clinical and rehabilitation technology, new materials, environmental technology and food-processing

equipment. A pilot project was launched with the aim of matching demand for and offers of specialist training. Should the offers prove insufficient to meet the demand, the ECE will seek additional funding for further development of the programme. To meet some of the new demands for technical assistance, a special trust fund has been created, supported by industry and entitled "Industry-Structural Change and Development" (ISCAD) which has provided an opportunity to strengthen the work of ECE in this field.

Agriculture and Timber

64. Apart from the programme of work in the fields of agriculture and timber, which gives priority to the specific problems and needs of countries in transition (e.g. economic analysis, agricultural policies and prices), most of the ongoing ECE assistance activities from extra-budgetary resources are undertaken jointly with FAO and include the organization of workshops in the areas of: privatization and farm restructuring; sustainable agriculture and environment; harmonization of quality standards for food products; and agricultural statistics. These issues are of crucial importance for most of the countries in transition.

65. A workshop on restructuring agriculture and agricultural holdings will be held in Slovakia in May 1994. Other workshops are intended to address mainly training and extension activities, experimental farms and pilot zones, as well as the radionuclear contamination of rural areas. The harmonization of national quality standards in the countries in transition with international regulations and requirements is essential for their foreign trade, especially their exports to western markets. A workshop on marketing will be held in Hungary with significant financial and technical support from Finland and in coordination with FAO.

66. Two workshops have been held under the Timber Committee's auspices since the forty-eighth session of the Commission (Forest legislation, Debe, Poland, September 1993; Sustainable forest enterprises, Schwarzsee, Switzerland, November 1993). They have concentrated on institutional and economic aspects of the transition process in the forest and forest products sector, as recommended by the Ossiach meeting in 1992, which laid out the broad lines and priorities of the programme.

Human Settlements

67. Countries in transition are planning to privatize land and housing. This creates an enormous demand for appropriate legislation to guide this process. It furthermore requires the development of a land and housing market. Another important concern is the maintenance, repair and modernization of the existing housing stock and the repair and renewal of the older building stock of the pre-second world war era.

68. To assist countries in transition in tackling these problems the following activities would require an increased assistance:

- Identifying and formulating the specific issues faced by a country or group of countries which are at the same stage of transition and development;

- Privatizing the housing stock and municipal services in line with the principles of a market economy, including appropriate legislation, means of implementing policies, the creation of a land and housing market;

- Financing social housing and providing financial assistance to private home-owners;

- Creating a mortgage system and establishing a cadastre and real property and land registration systems;

- Developing cost-effective techniques and simple technologies to repair, modernize and maintain the concrete tower blocks;

- Identifying and putting into service municipal services such as waste-water treatment, solid waste and others, which could improve the environmental quality of the settlements.

69. Some of these needs have already been covered by the workshops organized in the field of human settlements with the support of the Trust Fund on Human Settlements. Additionally, study tours were also organized to complement some of the workshops by the host countries and/or institutions.

PROPOSALS FOR STRENGTHENING ASSISTANCE TO ECONOMIES IN TRANSITION

70. It can be seen from preceding paragraphs that the significant programme of workshops carried out by the ECE without recourse to regular budgetary resources will be supplemented in an important fashion in 1994 by a programme of advisory services funded from the regular budget but in addition to ECE regular budgetary resources. The key to success of both the workshop and the advisory service programmes will depend to a large extent upon the productive interaction between these technical cooperation activities and the regular programme activities of the ECE and its subsidiary bodies. It will also depend upon the continuation of close cooperation and coordination of work between ECE and its major partners in the region, namely the Commission of the European Community, OECD, EBRD, Council of Europe, GATT, World Bank and IMF as well as the CSCE.

71. The ECE work on norms and standards, regional strategies and all European legal instruments will continue to create a favourable environment for regional and subregional integration. While consideration will continue to be given to the specific needs of the countries in transition in all aspects of ECE regular work including policy advice, as described throughout this Note, it is difficult to envisage a further expansion of the Commission's programme of assistance to these countries within existing resources unless the Commission decides to redeploy further resources to activities in favour of the countries in transition.

72. The Commission will recall the provisions of General Assembly resolution 48/181 on the integration of economies in transition into the global economy which calls for special arrangements within the secretariat to ensure enhanced coordination of assistance to countries in transition. ECE's claim to a central role in such arrangements is a strong one. In this context attention is also drawn to the letter which the Secretary General addressed to all heads of agency of the UN system on 4 March encouraging their cooperation and

support to the Executive Secretaries of the regional commissions as catalysts for more coherent system-wide regional strategies.

73. The current level of ECE resources, both within the regular budget and from extra-budgetary sources, is no more than sufficient to ensure the delivery of mandated programmes, particularly those in priority areas of work, even though this may not preclude a re-evaluation of the evolution of priorities as provided for in paragraph 1 of Commission decision O (45). The way forward for the Commission may therefore be envisaged as a parallel development of activities in the regular programme devoted to priority and lesser priority areas of work on the one hand and the programme of workshops and advisory services designed to assist the countries in transition focusing upon the primary areas of interest to these countries, on the other hand. The secretariat will also serve as an instrument to bring both programmes together inasmuch as regional advisers will contribute information and proposals to regular ECE programme activity and regular staff will benefit from short assignments in the countries in transition in support of the technical cooperation activities.

74. At the same time the Commission may wish to review the need to elaborate programmes of assistance based upon its accumulated experience in the fields of transport, trade, industrial cooperation, energy, environment, human settlements and economic integration to foster the development of normal trade relations, to rebuild infrastructures and public utilities in the countries of the region which are affected by the conflict in the former Yugoslavia and by their application of sanctions imposed by the United Nations.

MARKET ACCESS FOR COUNTRIES IN TRANSITION

75. This section of the Note lists a number of current ECE activities which serve to facilitate access to markets for the countries in transition. It also gives an account of future activities which the Commission may wish to consider taking up to enhance its work further in this field. The Annex, which contains an analysis of the question of access to markets and related problems, is intended as background reading on the question of access to markets.

ECE CURRENT ACTIVITIES WHICH FACILITATE ACCESS TO MARKETS FOR COUNTRIES IN TRANSITION

Economic Analysis

76. In the Economic Survey for Europe and the Economic Bulletin for Europe, analyses of the transition economies' trade, payments and financial situation are regularly provided. This work constitutes an essential element of the secretariat's analyses of current economic developments in the eastern and western parts of the ECE region. In recent years, financial assistance and greater market access granted by the west in support of the east's economic reforms have received special attention in these publications.

77. In response to the collapse of CMEA trade and, later, interrepublican trade in the former USSR, the ECE encouraged the study of certain economic instruments to mitigate the fall in trade, reduce adjustment costs, economize on reserves and facilitate the move toward currency convertibility.

78. The secretariat has monitored the increasing access which eastern goods enjoy in western markets. However, its analyses have underlined the importance of improving the east's access, especially in those product sectors where liberalization foreseen under current trade accords is slow or meagre. The secretariat's studies have also drawn attention to the potential negative impact on eastern exports of contingent protection measures applied in the west during the past two years.

79. The secretariat has drawn attention to the potential costs to the eastern countries of raising external barriers, especially in response to pressures from sectoral interests or even individual producers.

Trade

80. For over 40 years the Committee on the Development of Trade has promoted trade among ECE member States. Its accumulated experience has permitted it, more recently, to play a significant role in the facilitation of trade of the countries in transition. Technical assistance in trade development takes place in a wide number of activities.

81. The trade facilitation programme is set out to eliminate the unnecessary and time-consuming work in trade transactions. The reduction of transaction costs increases trade efficiency and permits the emergence of new businesses in international trade, thereby stimulating competition.

82. UN/EDIFACT develops new and efficient standards and procedures, the use of which are encouraged amongst businesses and governments, including those of countries in transition. Trade facilitation recommendations and standards are developed and coordinated by the Working Party on the Facilitation of International Trade Procedures (WP.4).

83. In March 1993, WP.4 agreed on a project to assist countries in transition in the area of trade facilitation which would take the form of:

- studies of trade infrastructure in transitional economies in order to identify major requirements and appropriate solutions in the areas of trade facilitation and EDI;

- the development of educational materials and the training of national trade facilitation and EDI experts;

- the establishment of national trade facilitation centres; and

- expert advice in various forms.

84. EDIFACT can only be effective where the conditions for business development and trade exist. The Committee on the Development of Trade has undertaken numerous studies aiming at creating favourable conditions for business and trade, inter alia, on the promotion of foreign direct investment in countries in transition, the environment of small and medium-sized enterprises in intra-regional trade, assessment of experiences of privatization in countries in transition and on the conditions for stimulating inter-regional trade. The Committee has organized seminars and workshops on promoting FDI in small countries in transition, reforms of foreign trade and

payments in countries in transition and on training managers for east-west joint ventures.

85. Under the auspices of the Working Party on International Contract Practices in Industry (WP.5) which is composed of legal experts from ECE member countries, guides and model contracts are drawn up to facilitate trade and investment in countries in transition. Since 1990, three separate Guides have been prepared for businessmen, bankers and Government officials:

- Guide on Legal Aspects to Privatization in Industry;

- Guide on Selected Legal Issues related to Privatization and Foreign Direct Investment in the Economies in Transition: A Comparative Analysis;

- Guide on Financing East-West Trade and Privatization in Central and Eastern Europe.

86. These Guides have proved to be essential tools in legal and institution building in countries in transition, particularly in the states of the CIS. Belarus and Ukraine for instance used the Guide on Privatization in designing their own laws in this area.

87. At the September 1993 session of WP.5 during which a seminar on the subject of financing east-trade and privatization was held, speakers indicated that the lack of property law in countries in transition made financial transactions extremely difficult in those countries. Accordingly, the Working Party's next Guide will be on the question of property law and will include policy recommendations on how Governments in transition might improve the legal background to make financial transactions more secure.

88. During the forty-second session of the Committee on the Development of Trade, a number of delegations made a suggestion to the effect that the Committee and the ECE secretariat assist countries in transition in their negotiations for accession to GATT and the new World Trade Organization. This assistance could be provided in the form of the preparation of trade analyses, policy recommendations, advisory services, technical publications and other forms of technical assistance.

Transport

89. Activities carried out by ECE in the field of transport are aimed at the achievement of a coherent and efficient transport system in the ECE region. They therefore contribute to reducing transaction costs, promoting intraregional trade and increasing the competitiveness of the various individual transport modes, forms and enterprises.

90. In the field of transport infrastructure ECE activities include the development of coherent and high standard international rail, road and combined transport networks through ECE agreements AGR, AGC and AGTC respectively. A similar agreement for the development of an inland water transport network is under preparation. Through the improvement of transport infrastructures, benefits are realized through savings in transport time, the reduction of operating and accidents costs, the stimulation of economic growth at national and regional level, all of which contribute to the development of international transport and trade. In addition to the ECE infrastructure

agreements, which establish pan-European networks, the development of two infrastructure networks, the Transport-European North-South Motorway (TEM) for roads and the Trans-European Railway (TER) for rail and combined transport are being promoted with a view to realizing those benefits in central and eastern Europe. These networks will have considerable impact in the opening up of new markets in the east and will facilitate the access of eastern products to western markets.

91. In the area of manufacturing and trade of vehicles, the 1958 Agreement concerning the Adoption of Uniform Conditions of Approval and Reciprocal Recognition of Approval for Motor Vehicle Equipment and Parts as well as the technical regulations annexed to it have a direct bearing on a number of technical specifics of cars. Only through the reciprocal approval of vehicle manufacture according to those regulations by member States could international trade in motor vehicles reach the amount which can be observed today. In addition, those regulations establish high standard requirements for the construction of vehicles, which improve their safety and reduce accident costs as well as transport time, and therefore facilitate international trade and reduce transaction costs.

92. Improvement and harmonization of safety conditions of roads, as provided for in the Vienna Conventions on Road Traffic and Road Signs and Signals and in the European Agreements supplementing them, also contribute to safer and more efficient transport and therefore to the reduction of transaction costs.

Agriculture and Timber

93. ECE activities of assistance to countries in transition for trade promotion in the field of agriculture and timber are conducted under the auspices of the Committee on Agriculture and the Timber Committee. The FAO and the ECE cooperate closely on these matters.

94. A review of recent developments in European agricultural trade is prepared annually by the secretariat and published as an ECE/FAO publication. Market reports on the production, consumption and trade of selected commodities (grain, livestock and meat, milk and dairy products) are prepared annually by the secretariat and also published as ECE/FAO publications.

95. The Working Party on Standardization of Perishable Produce and Quality Development and its Meetings of Experts are permanently improving and updating the UN/ECE standards adopted for fresh fruit and vegetables, potatoes, dry produce, poultry meat and porcine meat.

96. As consumers in the region are requesting more and more safe and good quality food, quality therefore is an essential factor for competitiveness in international markets, and the UN/ECE standards on commercial quality are very concretely contributing to intra-regional trade facilitation.

97. Some countries in transition are major exporters of agri-food products. The harmonization of their national standards with international requirements is a crucial prerequisite for maintaining or developing their exports and share on their own domestic markets.

98. Workshops on quality improvement and control procedures are organized in countries in transition and several are planned in 1994.

99 The Timber Committee is a major international supplier of market information and analysis, and thus plays an important role in maintaining and improving the transparency of markets, and thus promoting trade. It has a comprehensive and integrated programme of publications, kept under regular intergovernmental review.

Energy

100. The Working Party on Coal promotes the exchange of information on the short- and long-term coal demand and supply situation in the ECE region and worldwide, and on institutions and practices in international coal trade and transport. It assesses the emerging trends in coal production, trade, transportation and utilization; the effectiveness to improve the transparency of the world coal market and transport routes and rates and to facilitate access to the global coal market, in particular for central and east European and CIS countries.

101. The Working Party on Gas analyses gas trade and networks in Europe. A programme of assistance to countries in transition to adapt their gas industries to market conditions was initiated and approved by the Working Party on Gas, as a technical cooperation programme which will operate through a Trust Fund. Under this programme, a Gas Centre and a data base will be established to provide permanent, reliable and accessible communications among gas industries, related government agencies, international financial and development institutions.

102. The Working Party on Electric Power examines the policy and strategic aspects of electric power interconnections for electricity exchange. A study on central European interconnection of electric power systems, aimed at east-west electrical energy trade, is being carried out as a joint study of ECE/UNIPEDE. The Working Party also monitors the progress made in the interconnection of electric power transmission systems in the Balkan countries.

103. The "Energy Efficiency 2000" Project is implemented through the Steering Committee. The main objective of the Project is to enhance trade and cooperation in energy efficient, environmentally sound technologies and management practices between participating states, in particular, between formerly centrally planned economies and market economies.

Industry and Technology

104. The Working Party on the Chemical Industry issues The Chemical Industry: Annual Review, a collection of detailed statistics on production and trade in chemical products and also general economic and subsector analysis.

105. The Directory of Chemical Producers and Products is a complete listing of enterprises producing chemicals, including their production profiles. Apart from helping to create transparency in the chemical industry, the Directory is a useful tool in promoting trade. A Comparative Study of Chemical Legislation in the ECE Member Countries is being prepared to examine the specific legislation affecting the chemical industries in different countries, which would promote better understanding and transparency in this field, and thereby trade and investment. The study is also intended to make a comparison of the

legal framework among the countries in the region as a step towards harmonization.

106 The Working Party on Engineering Industries and Automation, through its annual publication World Engineering Industries: Performance and Prospects, examines development trends in regional and world trade in engineering products. The statistical data on international trade collected and analysed cover an extensive range of engineering products and technologies. The Working Party has recently published a number of studies on the export and import rates of selected capital and consumer goods including machine tools and industrial robots, various medical technologies, food-processing machinery, and low-waste and other environmentally sound technologies.

107. One of the objectives in organizing seminars and workshops is the promotion of trade. A seminar on foundry production and ecology was held in Minsk, Belarus in May 1993. In 1994, the Working Party will hold a workshop on robotics in Hungary and a seminar on PRODCOM, the European Union's system of product statistics, with the specific aim of facilitating its introduction and implementation in the countries in transition, and access to markets.

108. The Working Party on Standardization Policies is a forum where government experts can formulate policies aimed at the elimination or at least the reduction of technical barriers to trade arising from differences between standards and technical regulations, conformity assessment procedures and metrological practices. A 1990 survey of the ECE Recommendations on Standardization Policies showed that national Governments and organizations implemented these recommendations to a high degree. A complete revision of the recommendations will be undertaken in 1994. The Working Party also sets government priorities for international standardization work with a view to promoting a global development policy in areas such as environmental protection and energy efficiency.

109. At its third session in May 1993, the Working Party adopted recommendations on the metrological assurance of testing which would assist the countries in transition to bring their testing procedures into conformity with western norms, thereby increasing confidence in the quality of testing and reducing differences which can create non-tariff barriers to trade. The Working Party is also investigating the possibility of organizing ECE training programmes in standardization and related activities by matching the needs in the countries in transition with availability of trainers and resources in the west.

110. The Working Party on Steel prepares annually The Steel Market, a comprehensive analysis of developments in the steel market during the past year and projections for current and future years. It is prepared with the assistance of steel industry experts from ECE and non-ECE member countries. The Working Party also publishes steel industry statistics in the annual bulletins of Steel Statistics for Europe and Statistics of World Trade in Steel.

FUTURE MEASURES TO BE CONSIDERED BY THE COMMISSION TO FACILITATE ACCESS TO MARKET FOR COUNTRIES IN TRANSITION

111. Knowing that higher and more equitable economic growth tends to be associated with higher growth of exports and that a more outward-oriented

trade policy gives better trade performance in terms of export expansion and external trade balance, Governments in east and west are well aware of the need to ensure and to promote wider access of their goods. (Issues of market access are discussed in Section 4.2 of the Economic Survey of Europe, 1993-1994.) Taking into account the analysis of problems related to market access (see Annex) it would appear that the ongoing activities, as described above, should be pursued and that ECE could help in the implementation of the following issues which have been proposed to governments or are being considered by them in order to improve market access particularly for products from the countries in transition. For each of them ECE could, through seminars or studies to be considered by the appropriate subsidiary bodies, contribute to awareness-raising of the problems, to the preparation of timely solutions or to the elaboration of legal instruments.

Application of safeguards measures

112. New safeguard codes in the Uruguay Round Agreement and recent changes in the national application of safeguards may alleviate some of the problems which the exports of the eastern economies have encountered in the west. In the light of the issues which arise in conjunction with the application of such measures to economies in transition, the affected countries should be closely consulted and associated with their implementation.

Improvement of payment arrangements

113. Although some economies in transition have successfully instituted market-based payments regimes, many continue to face problems stemming from inadequate payments systems, large payments imbalances and shortages of convertible currency. Thus, at least for some countries, it may still be advisable to examine the possible benefits of alternative systems, e.g. currency boards, payments unions (after the successful European Payments Union of the 1950s), and so on. Such arrangements may reduce the need for balance-of-payments assistance, economize on foreign currency and foster the move toward convertibility, while giving countries time to undertake necessary adjustments.

Intermediate solutions to improving market access

114. The lack of or weak export credit guarantee facilities for east European producers creates general exporting difficulties. Western assistance might be required to establish a workable export credit guarantee system. The cost of such a scheme would be relatively small. Training, particularly of bankers who would have the responsibility of credit assessment, would have to be provided to employees of local banks, preferably in association with western commercial banks.

Stimulating foreign direct investment

115. Promoting foreign direct investment is an important means of boosting trade and market access for eastern products. The need to promote FDI is now well appreciated in countries in transition but there still exists a lack of understanding of the FDI process and the factors which stimulate it. In order to boost intra-regional trade, it is also important to promote intra-regional FDI and encourage east European producers to establish operations in other European countries.

Enforcing new competition rules

116. By providing protection to foreign investors in some industries, countries in transition are risking the removal of some of the positive contribution which FDI can make to the transition process. Where protection has been accorded to the foreign investor, there is the risk that the latter will have little incentive to make further investments (the company after all, has already secured a guaranteed market for its products), carry out significant technological development both to the product or to the production process, and to capture foreign markets.

117. On the other hand, the abolition of such measures will not come without a cost to the governments. Without protection it is doubtful whether the foreign investor would make the investment. Thus by enforcing new competition rules the government risks losing badly needed revenues from these types of company sales.

ANNEX

IMPORTANCE OF MARKET ACCESS FOR COUNTRIES IN TRANSITION AND THE EMERGENCE OF NEW BARRIERS TO TRADE

1. Following the successful conclusion of the GATT Uruguay Trade Round in December 1993, the creation of the European Economic Area in January 1994, the ratification of the European Agreements with Poland and Hungary in February 1994 and the first anniversary of the entry into force of a free-trade agreement between the Czech Republic, Hungary, Poland and Slovakia in March 1994, the questions of market access for the economies in transition have taken on a new significance. Despite this network of extended free trade agreements, the goal of pan-European integration and a barrier-free European market is still far from being realised. To encourage European economic integration, the ECE provides assistance to countries in transition in order to improve their access to regional markets.

2. For some time, the ECE secretariat has been proposing a comprehensive and wide-ranging framework for western assistance to the countries of central and eastern Europe.1/ Such recommendations are based on the recognition of the difficulties of achieving a rapid transition to a market economy, and draw in part on relevant lessons of the European Recovery programme in the period following the Second World War. Regrettably, it has to be acknowledged that these recommendations have not been translated into policy action. Little aid, in the form of grants, has been accorded to the transition economies whilst the technical assistance provided has been frequently criticized for its lack of coherence and effectiveness.

3. In contrast to this response to the collapse of central planning and the transition to market economies, the western countries have adopted a far more robust and effective approach in their trade policies particularly to those countries which have made the most progress in their reforms (Czech Republic, Slovakia, Hungary, Poland, Bulgaria and Romania). This approach is reflected, for example, in the Association Agreements (European Agreements) and free trade agreements with the EU and EFTA respectively.2/ These measures have improved market access significantly for these transition economies. Although less extensive, a number of trade and cooperation agreements have been signed between CIS states and western countries; and more recently Russia has gained from MFN and GSP treatment by the United States.3/

4. The advantages of liberalizing trade with countries in transition and providing them with improved access to western markets are considerable. First, the resulting increase of trade directly helps the transition process. Given the economic policies being favoured by many of the countries in transition, e.g. tight monetary control and reductions in their public deficits, domestic demand will be unlikely to provide a major impetus for growth for some time. Thus foreign trade is particularly important if economic growth is to be achieved. Secondly, it will assist in raising the technological level of the domestic economy. Third, it will force the domestic producers to be competitive and raise the standards and quality of their products to western levels. Finally, secure access to western markets acts as a powerful stimulant to foreign direct investment which is looking to exploit low factor costs, particularly of qualified labour to manufacture products for export to western markets. It is for these reasons that

governments of east European countries have argued that extending market access is by far the best form of technical assistance which the west can grant.

5. Thus, one can note already the immediate benefits of improved market access in the form of a sharp rise in exports from central and east European countries to western countries. With regard to Hungary, Poland, Czech Republic and Slovakia (the Visegrad group), trade has shifted towards western market economies and particularly the countries of the European Union (EU). During 1989-1992 exports of these countries and possibly Bulgaria grew at rates well above those of total western imports. Amongst the Baltic countries as well, there has been a radical restructuring of trade away from the former Soviet Union towards other markets, most notably towards Scandinavian countries and Germany.4/

VARIOUS DIMENSIONS OF MARKET ACCESS PROBLEMS

6. Although the market access issue has been most discussed in relation to the access of eastern goods into western markets, market access also concerns restrictions on goods entering the eastern markets. This can also involve restrictions placed on the rights of western firms to establish in these markets. It is moreover a problem which is not geographically confined to the relations between east and west. Because of the collapse of intra-east European trade, market access has also become an issue for policy makers in countries in transition responsible for trying to revive intra-east European trade. The question of market access thus can be viewed in terms of access to western markets "east-west", in terms of the transition countries' own trade regimes towards imports of western goods, "west-east"; and finally in terms of the access of products from countries in transition to other east European markets, "east-east". It is also relevant to mention some of the internal barriers in countries in transition at the level of the firm and its domestic environment which impede their ability to penetrate foreign markets.

EAST-WEST

7. As the trade and cooperation agreements have come into force, there has emerged a tendency of western governments, in the absence of the traditional forms of protection which have been abolished by the agreements, to resort to the use of special safeguards, anti-dumping, countervailing duties against products in particularly sensitive sectors of the economy. The use of these non-tariff measures to protect their industries from east European products has, it is argued, undermined the initial objectives of these agreements.

8. It is worth asking the question why such safeguards were included in the agreements and subsequently used? Contrary to some thinking, such measures were not designed to halt any major surge in imports of the east which might threaten the EU's or other countries' balance of payments. This threat was never a realistic one. In recent years, in many important sectors of the EU market, the share of imports from the countries in transition has in fact diminished. In chemicals, for example, the share of products imported from the east represents only 1.7% of the EU market (2.8% for textiles, 2.7% for steel and 2.3% for agricultural products).5/ Indeed, overall liberalization of trade has benefited the western far more than the eastern producers.6/ Rather, the use of these measures has been designed to prevent low-priced goods from entering markets, depressing prices and causing market disruption

in a few specific industries. Those sensitive areas are hard-pressed industries where employment levels tend to be sensitive to structural rather than cyclical factors, i.e. employment will not increase once the economy moves out of recession, and where employment is highly concentrated geographically. Consequently, in such industries as steel, the demand for relief from such imports has grown stronger.

Contingent protective measures

9. Use of contingent protective measures, that is, anti-dumping action, countervailing duties and safeguards by western market economies against products of eastern Europe, are adversely affecting trading and investment propensities of the economies in transition. As explained above, the use of such measures has come at a time when standard protection measures (tariffs and quotas) have been reduced as a direct result of the conclusion of Association Agreements signed between the EU and the individual countries of central and eastern Europe. This process of liberalization in east-west trade was impeded in 1992 when the EU, at the behest of western producer groups, imposed restrictions on a range of imports of sensitive products from the transition economies which were considered to have been "dumped" on the EU market.

10. While dumping undeniably represents a genuine threat to domestic producers, the procedures for combatting it under the terms of the Association Agreements have been criticised for their lack of transparency and for the scope they have given to administrative discretion to impose barriers on products from the "sensitive sectors" which are listed as exceptions to the overall liberal trading regimes in the agreements. These so-called contingent measures of protection, it has been argued, have tended to undermine the liberal intentions of these Agreements.7/ Moreover, recent changes to the way the EU approves anti-dumping duties - i.e. subject to approval by a simple majority of Member States, instead of by a qualified majority vote - threatens to make it even easier for the EU to use anti-dumping procedures in the future.8/

11. The impact of these restrictive measures on trade with the countries in transition is difficult to quantify. Currently, for example, these sensitive items which are vulnerable to restrictions constitute as much as 45% of the exports of the Czech Republic and Hungary. Bulgaria has reported that some of its exports were provided more access to western markets before the signing of its agreement with the EU than after. In the agriculture sector in 1993, several east European countries suffered from the temporary restrictions on their exports of meat and meat products, their losses being estimated at several hundred thousand US$ a month for Bulgaria, some US$ 40-50 mn for Hungary and US$ 70 mn for Poland. As concerns foreign investment, there is no doubt too that restrictions will have an adverse affect on flows of FDI in the east. This concerns those foreign investors contemplating investing there with the intention of exporting at least part of their output to the west. Many investors might forego investments if they thought that their products would become a target for protectionist actions. According to the UN/ECE data base on foreign investments in the countries of transition, it has been noted that while some countries have registered greater FDI flows in the course of 1993 than in preceding years, overall, the flows have been disappointing. It is no coincidence that one of the least successful performers in attracting FDI, Bulgaria, had considerable difficulty in implementing its Interim-

Association Agreement with the EU and thus had to forego the advantages of improved access to the EU market. On the other hand, the impact of these restrictions on FDI flows should not be exaggerated. It should be remembered that certain industries where products made in central and eastern Europe are restricted from entering EU markets - agriculture, steel, metal manufactures, leather goods, etc. - are not product areas where FDI has traditionally played much of a role.

Rules of origin

12. As tariffs are reduced under the terms of the EU agreements and the free trade agreements with EFTA, the rules of origin provisions attached to these preference granting schemes have emerged as a further barrier to the markets of the west by east European producers as well as an obstacle to economic integration in the ECE region. For countries in transition, the restrictiveness of rules of origin has become a source of concern with the conclusion of independent (parallel) preferential or free-trade zones in Europe: EU-EFTA (EEA), EU-east European countries, EFTA-east European countries, CEFTA, the Baltic free trade area, and several bilateral FTAs. The problem stems from the fact that the European free-trade treaties are strictly bilateral (EU with EFTA, EU with CEFTA, and EFTA with CEFTA) and non-cumulative when it comes to rules of origin.

13. Although the contents of these agreements are similar and their goal is the elimination of duties and quantitative restrictions, they are not linked to each other. Material originating in one free-trade area is regarded as third country material when exported for processing to another free-trade area. If such imported material exceeds certain limits, it fails to qualify for cumulation purposes. Put differently, such imported material disqualifies the product into which it is incorporated from benefiting from trade preferences offered in another trade area.

14. Thus, exports from any one transition economy must be produced chiefly from domestic inputs or from materials originating in the respective free trade zone (EU or EFTA, but not both taken together) to qualify for preferences in either of them. Basically, no material originating in other transition economies can be used. The exception to this otherwise restrictive system is that materials from any of the four CEFTA countries (Czech Republic, Slovakia, Hungary and Poland) cumulate (bilateral) for export to the ECE or EFTA. This special arrangement excludes Bulgaria and Romania, which have also concluded Association Agreements with the EU. To take an example: an affiliate of a consumer electronics, EFTA-based firm which has imported parts from, say, an affiliate in Romania, would lose free-trade status when selling to the EU and have to pay the same 14% duties as their non-European rivals. Such restrictive rules of origin are adversely affecting other industries as well.

15. Overall restrictive provisions regarding rules of origin written into various trade agreements raise costs and hinder the economic integration of the countries in transition among themselves and with the west. In addition, such restrictions encourage producers to source imports in countries whose products qualify for preference, rather than meet competitive cost criteria.

WEST-EAST

16. Several countries have begun to re-establish the controls on imports which they had liberalized in the initial stages of their transition process. Hungary, for example, has taken several safeguard measures to protect some industries. There is pressure in both Hungary and Poland to initiate anti-dumping procedures. While in these countries, old-style pressure groups have disappeared, new ones are emerging.

Protecting foreign investors

17. In addition to domestic pressure groups, foreign investors are also pressing governments for direct foreign trade advantages in order to protect their products from foreign competition. It is interesting to recall that, early in the transition process, some economists identified the stimulation of competition and the breaking up of monopolies as being among the most beneficial contributions that foreign direct investment would bring the economies in transition.

18. Generally speaking, the large FDIs which were made in privatization programmes in central and eastern Europe have occurred in oligopolistic industries, consumer goods, branded products or in industries such as automobiles. In most cases the focus of the investment is the domestic market. Often, in return for making sizable investments, foreign investors have persuaded the government to preserve the monopoly of the producer they are acquiring, and to provide protection at least for a transitional period against foreign imports or to include some exclusivity clause in the purchase agreement which permits exclusive access to the market. These demands are made because the price they can receive for their product in eastern markets, whether a car or cigarettes, is far lower, given current exchange rate parities, than at home. They thus need a large secure market to compensate for the shortcomings in terms of price. These demands are also linked to the high risk factors of doing business in the region, particularly those related to receiving payment and repatriating their profits.9/

Use of industrial policy

19. Another main recent trade policy-related development is the new approach taken by most central and east European countries towards industrial policy. In the first stage of reform, the governments preferred that economic restructuring be led by market forces, but as their economies have faced greater adjustment problems than was expected, they have begun to intervene more to protect individual enterprises and industries. Increasingly, countries in transition are using policies which differentiate industries and sectors, based on these policies' effects on anticipated economic efficiency or their strategic importance.10/

Restrictions on right of establishment

20. Foreign investment legislation in countries in transition has been considerably liberalized and brought into line with the legislation existing in western market economies. But poor enforcement of laws, bureaucratic methods of approval, etc. has undermined the open access of western firms to some countries' markets. Western companies in certain industries have also been excluded or restricted from establishing in countries in transition.11/

EAST-EAST

21. Since the collapse of the CMEA and the dissolution of the Soviet Union, there has been a sharp downward trend in reported volumes of trade between the countries of central and eastern Europe and the former Soviet Union. Economists have debated whether in response to these developments policy makers should seek to revive such trade as it was based, not on comparative advantage, natural resources, resource endowments, etc. but on administrative directives. Recent studies have however shown that while former trading relations among central and east European countries were based on artificially directed plan directives, there still existed substantial differences in competitiveness across a wide spectrum of products for these trade patterns to be expanded and to operate according to the principles of a market economy. There is also every reason to believe that there are real possibilities for creating new trade within and among enterprises in the region. However before such trade can be expanded, a number of barriers and obstacles will have to be removed.

INTERNAL BARRIERS

22. Existing trade barriers, payment difficulties are not the only obstacles to eastern goods access to western or eastern markets. Exporters in the countries in transition are handicapped by a number of factors which considerably restrict their export potential. In many cases these internal barriers are serious impediments to improving east European exporters' trade performance. Much of the evidence about these internal barriers comes from the east European exporters themselves and is based on recent poll findings.

23. The most important obstacles are the following:

- poor telecommunications and transport infrastructure

  The telecommunications network in central and eastern Europe badly needs new investment in order for it to provide a service commensurate with a modern, efficiently-run economy. Many countries have set themselves targets that by the year 2000 their telephone network, as measured by lines per inhabitant, will have reached the level of south European countries. Transport links too between east and west are also cited as a serious inconvenience as well as the poor state of customs facilities at borders.

- unstable regulatory and financial situation; lack of trading experience; uncompetitive products; inadequate packaging marketing and advertising; and insufficient government assistance in promoting east European exports.

NOTES

1/ See especially "Economic reform in the east: a framework for western support", in Economic Survey of Europe in 1989-1990, "A framework for transition" in Economic Survey of Europe in 1990-1991, and subsequent policy chapters of the Economic Survey and Economic Bulletin.

2/ The goals of the Association Agreements are to eliminate eventually all import duties and non-tariff barriers for all industrial goods and to improve access for agricultural products. The trade provisions are asymmetric in the sense that the EU grants its east European partner immediate duty free access upon entry into force of the interim agreements. EFTA has also concluded a number of free trade agreements designed to abolish all customs duties and quantitative restrictions in trade between the partners. The agreement covers trade in industrial goods and fish, whereas trade in agricultural goods is treated in bilateral negotiations. Like the EU Association Agreements, these agreements are asymmetric: EFTA countries will liberalize their markets at a faster pace than the transitional economies but unlike their EU counterparts, they will only come into force after ratification.

3/ For their part, the central and east European countries have, since 1990, engaged in a rapid liberalization of their foreign trade regimes, which has included the elimination of the foreign trade monopoly, the reduction of the role of the state, substantial import liberalization and the introduction of an effective customs tariff. By liberalizing the trade regimes in both eastern and western countries, governments have succeeded, to a considerable extent, in normalizing east-west trading relations. For the countries in transition, this liberalization has restored the links between their national economies and the international economic environment which had been practically severed under the old system of central planning.

4/ The question may be raised whether the high growth rates exhibited by the central European countries' exports to the west should be regarded as a positive reaction to trade liberalization or as strategic imports, i.e. as part of a strategy of EU producers redeploying some of its productive processes to lower-cost countries. See "Trade Patterns and Comparative Advantages of Central Eastern Europe with EC Countries", by Giovanni Graziani in International Trade and Restructuring in Eastern Europe edited by Janos Gacs and Georg Winckler, IIASA.

5/ See "Les exclus du Grand Marché", Courrier International, 3-9 February 1994.

6/ Between 1989 and 1992, east European exports to the OECD countries rose in value by 49%. However, eastern imports from the OECD area increased by 67% and the OECD trade balance with the east has moved from a small deficit into a sizeable surplus.

7/ "Helping transition through trade? EC and US policy towards exports from eastern and central Europe", Brian Hindley, Working Paper, No. 4, European Bank for Reconstruction and Development, March 1993.

8/ Such a measure looks unlikely to be revoked, since it was an explicit condition of France's acceptance of the Uruguay Round Agreement. Financial Times, 8 February 1994.

9/ Many large scale agreements involving privatization bear some protective or anti-competitive element. The largest privatization deal in the region for example has involved the purchase by the German car company Volkswagen of Skoda in the Czech Republic. The Czech Government promised four years of high import tariffs in 1991 in exchange for Volkswagen's huge investment in Skoda. Accordingly the manufacture of Skoda cars in the Czech Republic benefits from protective tariffs of 15.2% on EU-made cars and 19% on all others.

Volkswagen-Skoda has become the country's only car producer, accounting for 75% of sales in the domestic market. Critics have claimed that such protection distorts competition and allows Volkswagen to reap monopoly profits. Since its acquisition, Volkswagen has raised the prices of Skoda cars six times, a total increase of 40% since Volkswagen bought 31% of the company in 1991. Such protection restricts access to east European markets.

10/ Initially Poland, for example, operated under the principle "the best industrial policy is no industrial policy". Now in the light of the problems related to the restructuring of its industries, Poland is adopting various measures that can be described as genuine industrial policies. See the case-study of the restructuring of the Polish telecommunications equipment industry in "Successes and shortcomings of privatization: implications for economies in transition and their place in the world market" (ECE/TRADE/604), study prepared by the ECE secretariat, Committee on the Development of Trade.

11/ Russia, for example, to protect its local banking industry is using quotas to restrict the number of foreign banks which can operate in its market.